

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER

Interlocal District No. 602

Oakley, Kansas

Audit Report

July 1, 2008 to June 30, 2009

MAPES & MILLER
Certified Public Accountants
Quinter, Kansas

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER

Interlocal District No. 602

Oakley, Kansas

Financial Statements

July 1, 2008 to June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

We have audited the accompanying financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the District has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Two

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of June 30, 2009, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of June 30, 2009, and its cash receipts and expenditures for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2010, on our consideration of Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, taken as a whole. Schedule 1 as listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards and Schedule 1 have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole on the basis of accounting described in Note 1.

Mapes & Miller

Certified Public Accountants
January 29, 2010

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER

Interlocal District No. 602

Summary of Cash Receipts, Expenditures and Unencumbered Cash For the Year Ended June 30, 2009

STATEMENT 1

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General Funds						
General Fund	\$ 422,397	2,202,304	2,232,985	391,716	40,689	432,405
Special Revenue Funds						
Capital Outlay Fund	443,228	52,738	88,536	407,430	0	407,430
Professional Development Fund	132,059	440,298	503,266	69,091	6,906	75,997
Special Education Fund	2,189,396	6,331,698	6,899,188	1,621,906	2,283	1,624,189
Food Service Fund	0	166,736	166,736	0	0	0
Vocational Education Fund	10,911	22,811	22,440	11,282	0	11,282
Parents As Teachers Fund	48,534	171,310	194,092	25,752	196	25,948
Federal Grants Fund	17,751	323,099	258,699	82,151	16,497	98,648
Medicaid Fund	842,690	294,751	410,796	726,645	0	726,645
Adult Services Fund	(6,018)	67,370	71,239	(9,887) *	242	(9,645)
Total Reporting Entity	\$ 4,100,948	10,073,115	10,847,977	3,326,086	66,813	3,392,899

* See the Notes to the Financial Statements, 6. Statutory Compliance

Composition of Cash:	
Farmers State Bank, Oakley, KS	\$ 1,500
Checking Accounts	2,517,669
SUPER NOW Accounts	2,519,169
Total Farmers State Bank	
The Bank, Oakley, KS	106,274
Checking Accounts	
Peoples State Bank, Oakley, KS	517,456
Certificates of Deposit	
Golden Plains Credit Union, Quinter, KS	250,000
Certificates of Deposit	
Total Reporting Entity	\$ 3,392,899

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
General Fund

STATEMENT 3
Page 1

Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

	<u>Actual</u>
Cash Receipts:	
State Aid	\$ 264,783
Participating Districts	409,384
Federal Aid	1,408,077
Miscellaneous (printing, etc)	5,739
Laminating/Repairs	13,071
Reimbursements	86,540
Donations	12,155
Transfer from Medicaid Fund	<u>2,555</u>
Total Cash Receipts	<u>2,202,304</u>
Expenditures:	
Instruction	1,398,726
Student Support Services	103,418
Instructional Support Staff	45,691
General Administration	77,072
School Administration	412,156
Operations and Maintenance	127,291
Student Transportation Services	21,102
Vehicle Services and Maintenance Services	10,872
Other Supplemental Services	<u>36,657</u>
Total Expenditures	<u>2,232,985</u>
Cash Receipts over (under) Expenditures	(30,681)
Unencumbered Cash, Beginning	<u>422,397</u>
Unencumbered Cash, Ending	<u>\$ 391,716</u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

STATEMENT 3
Page 2

	<u>Actual</u>
Capital Outlay Fund	
Cash Receipts:	
Interest on Idle Funds	\$ 33,200
Reimbursements	<u>19,538</u>
Total Cash Receipts	<u>52,738</u>
Expenditures:	
Student Support Services	54,389
Operation and Maintenance	27,001
Land Improvement	919
Other	<u>6,227</u>
Total Expenditures	<u>88,536</u>
Cash Receipts over (under) Expenditures	(35,798)
Unencumbered Cash, Beginning	<u>443,228</u>
Unencumbered Cash, Ending	<u><u>\$ 407,430</u></u>

Professional Development Fund	
Cash Receipts:	
Federal Aid	\$ 77,000
Fees - Participating Districts	233,189
Fees - Other	23,020
Reimbursements	<u>107,089</u>
Total Cash Receipts	<u>440,298</u>
Expenditures:	
Instruction	1,700
Instructional Support Staff	<u>501,566</u>
Total Expenditures	<u>503,266</u>
Cash Receipts over (under) Expenditures	(62,968)
Unencumbered Cash, Beginning	<u>132,059</u>
Unencumbered Cash, Ending	<u><u>\$ 69,091</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

STATEMENT 3
Page 3

	<u>Actual</u>
Special Education Fund	
Cash Receipts:	
State Aid	\$ 3,332,873
Federal Aid	1,432,406
Participating Districts	1,039,973
Other Grants	34,128
Other Revenue From Local Sources	26,540
Transfer from Medicaid Fund	396,233
Reimbursements	69,545
	<u>6,331,698</u>
Total Cash Receipts	
Expenditures:	
Instruction	4,075,339
Student Support Services	1,445,564
Instructional Support Staff	542,743
Special Area Administration Services	76,001
School Administration	735,622
Operations and Maintenance	23,919
	<u>6,899,188</u>
Total Expenditures	
Cash Receipts over (under) Expenditures	(567,490)
Unencumbered Cash, Beginning	2,189,396
	<u>1,621,906</u>
Unencumbered Cash, Ending	\$ <u>1,621,906</u>

Food Service Fund

Cash Receipts:	
Federal Aid	\$ 136,736
Reimbursements	30,000
	<u>166,736</u>
Total Cash Receipts	
Expenditures:	
Food Service Operations	166,736
	<u>166,736</u>
Cash Receipts over (under) Expenditures	0
Unencumbered Cash, Beginning	0
	<u>0</u>
Unencumbered Cash, Ending	\$ <u>0</u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

STATEMENT 3
Page 4

	<u>Actual</u>
Vocational Education Fund	
Cash Receipts:	
Federal Aid	\$ <u>22,811</u>
Expenditures:	
Instruction	21,300
School Administration	<u>1,140</u>
Total Expenditures	<u>22,440</u>
Cash Receipts over (under) Expenditures	371
Unencumbered Cash, Beginning	<u>10,911</u>
Unencumbered Cash, Ending	\$ <u><u>11,282</u></u>

Parents As Teachers Fund	
Cash Receipts:	
State Aid	\$ 75,615
Participating Districts	76,895
Other Revenue From Local Sources	<u>18,800</u>
Total Cash Receipts	<u>171,310</u>
Expenditures:	
Student Support Services	157,625
Instructional Support Staff	<u>36,467</u>
Total Expenditures	<u>194,092</u>
Cash Receipts over (under) Expenditures	(22,782)
Unencumbered Cash, Beginning	<u>48,534</u>
Unencumbered Cash, Ending	\$ <u><u>25,752</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

STATEMENT 3
Page 5

	Actual
Federal Grants Fund	
Cash Receipts:	
Federal Aid	\$ 323,099
Expenditures:	
Instruction	112,400
Student Support Services	756
Instruction Support Staff	88,133
General Administration	57,410
Total Expenditures	258,699
Cash Receipts over (under) Expenditures	64,400
Unencumbered Cash, Beginning	17,751
Unencumbered Cash, Ending	\$ 82,151

Medicaid Fund	
Cash Receipts:	
Reimbursements - Medicaid	\$ 294,657
Revenue From Other Local Source	94
Total Cash Receipts	294,751
Expenditures:	
Instruction	8,285
Spectra Expenditures	482
Other Supplemental Services	3,241
Transfer to Special Education Fund	396,233
Transfer to General Fund	2,555
Total Expenditures	410,796
Cash Receipts over (under) Expenditures	(116,045)
Unencumbered Cash, Beginning	842,690
Unencumbered Cash, Ending	\$ 726,645

Adult Services Fund	
Cash Receipts:	
Federal Aid	\$ 27,470
Other Grants	39,900
Total Cash Receipts	67,370
Expenditures:	
Instruction	71,239
Cash Receipts over (under) Expenditures	(3,869)
Unencumbered Cash, Beginning	(6,018)
Unencumbered Cash, Ending	\$ (9,887)

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Notes to the Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies

Reporting Entity

Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, operates as an interlocal agreement district in accordance with the laws of the State of Kansas. The District is operated by an elected board of directors and provides the following services: general and special education services. The Board of Directors consists of one member from the board of education of each school district, which is a member of the interlocal agreement district.

Accounting principles generally accepted in the United States of America require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing body.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that as of June 30, 2009, and for the year ended, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, did not have any component units, which would be required to be reported.

Fund Accounting

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the fiscal year ended June 30, 2009:

Governmental Type Funds:

General Funds--to account for all resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

Reimbursements

Reimbursed expenditures are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenditures shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expenditure was directly tied to the amount of the original cash disbursement.

Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, are recorded as expenditures during the year of purchase.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these financial statements, is designed to demonstrate compliance with the cash basis laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidence by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and expenditure would be charged in the fund from which the transfer is made.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not

presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

2. Budgetary Information

Spending by the Northwest Kansas Educational Service Center is not subject to the legal annual operating budget requirements, but is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

3. Compensated Absences

Classified employees are granted personal leave based upon their work agreement. Unused personal leave can be accumulate up to 60 days and carried over to a subsequent year as sick leave. Accumulated leave in excess of 60 days is eligible for buy-back at a rate established annually by the Board of Directors. Classified employees on a 245 day work agreement are granted ten days of vacation time per year. After completion of three years of employment, vacation time is increased to a maximum of fifteen days. Vacation days may be accumulated but must be used within 60 days after year-end for which the vacation days were earned.

All certified employees working on a full-time basis receive fifteen days of personal leave per contract year. Personal leave not used in the current year may accumulate to a maximum of 480 hours and be used as sick leave. Sick leave hours in excess of 480 days are paid at a rate of \$75 per day on or before June 30. Upon termination of employment, sick leave hours in excess of 240 hours are paid at a rate of \$20 per day.

The cost of accumulated sick and vacation leave has been estimated to be \$658,587 as of June 30, 2009. This amount was not recorded in the financial statements.

4. Defined Benefit Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas Avenue, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes 7.97% of covered payroll, which includes 1% for Group Death and Disability Insurance. These contribution requirements are established by KPERS and are periodically revised. Kansas' contribution to KPERS for all Kansas public school employees for the years ended June 30, 2009, 2008, and 2007 were \$242,277,363, \$220,815,154, and \$192,425,626, respectively, equal to the required contributions for each year.

5. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on the funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by the federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at June 30, 2009.

At June 30, 2009, the District's carrying amount of deposits, including certificates of deposit, was \$3,392,899 and the bank balance was \$3,971,406. The bank balance was held by four financial institutions resulting in a concentration of credit risk. Of the bank balance, \$607,171 was covered by federal depository insurance, \$3,071,779 was collateralized with securities held by the pledging financial institutions' agents in the District's name, \$267,456 was covered by an Excess Deposit Insurance Bond issued by Progressive Insurance Company, and the balance of \$250,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$250,000
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6. Statutory Compliance

K.S.A. 10-1113 requires each fund to comply with the cash basis laws of the State of Kansas. That is, no commitments or indebtedness should be incurred unless there is available cash in the fund. The Adult Services Fund incurred indebtedness in excess of the available cash balance by \$9,887. This appears to be a violation of the cash basis law of the State of Kansas. However, K.S.A. 12-1664 allows a deficit unencumbered cash balance for federal aid funds, so the deficit cash balance in these funds are not a statutory violation. This deficit is expected to be eliminated in the future years as grant proceeds are received.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions. The District invested idle funds in a certificate of deposit with a credit union, which the credit union does not meet the definition of an allowable financial institution. The investment appears to be a violation of this statute.

7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has been unable to obtain worker's compensation insurance at a cost it considered to be economically justifiable. For this reason, the District joined together with other districts in the State to participate in the Kansas Association of School Boards (KASB) Compensation Fund, a public risk pool currently operating as a common risk management and insurance program for 176 participating members.

Premiums are paid annually to the Fund by participating school districts and are used to fund workers' compensation claims and other expenses. The Fund maintains an Excess Insurance policy to pay claims in excess of certain limits.

The District continues to carry commercial insurance for all other risks of loss, including property, liability, automobile, inland marine, linebacker, and surety insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. For certified employees who have twelve or more years of service with the District and retire at age 55 or older, the District pays a maximum of \$2,800 per year for health insurance until the retiree is eligible for Medicare or is eligible to be covered under another employer's primary group health insurance plan. During the year ended June 30, 2009, five certified retirees participated in this plan and the District paid \$14,000 in premiums for these retirees. Any remaining subsidy to retirees due to the plan's level premium structure has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

9. Operating Leases

The district is committed under one operating lease dated August 1, 2007, with Harries Leasing Company for vehicles. Future minimum operating lease commitments under these leases are as follows:

Year ending

June 30, 2010	\$ 5,489
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The district is also committed under an operating lease dated August 1, 2008 with Harries Leasing Company for vehicles. Future minimum operating lease commitments under this lease are as follows:

Year ending

June 30, 2010	\$132,066
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10. Operating Transfers

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Statute</u>
Medicaid Fund	Special Education Fund	\$396,233	Board Approved
Medicaid Fund	General Fund	\$ 2,555	Board Approved

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

We have audited the accompanying financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Kansas Educational Service Center, Interlocal District No. 602's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We also noted certain other matters that we reported to management of Northwest Kansas Educational Service Center in a separate letter dated January 29, 2010.

This report is intended solely for the information and use of the governing body and management of the District, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and other federal and state agencies to whose jurisdiction the District is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Directors, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley of Kansas, is a matter of public record.

Mapes & Miller

Certified Public Accountants
January 29, 2010

MAPES & MILLER

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

Compliance

We have audited the compliance of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Northwest Kansas Educational Service Center, Interlocal District No. 602's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwest Kansas Educational Service Center, Interlocal District No. 602's management. Our responsibility is to express an opinion on Northwest Kansas Educational Service Center, Interlocal District No. 602's, compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest Kansas Educational Service Center, Interlocal District No. 602's

To the Board of Directors
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compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northwest Kansas Educational Service Center, Interlocal District No. 602's compliance with those requirements.

In our opinion, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with the type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Three

This report is intended solely for the information and use of the governing body and management of the District, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and other federal and state agencies to whose jurisdiction the District is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Directors, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley of Kansas, is a matter of public record.

Mapes & Miller

Certified Public Accountants
January 29, 2010

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
INTERLOCAL DISTRICT NO. 602
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Page 15).
3. No instances of noncompliance material to the financial statements of Northwest Kansas Education Service Center, Interlocal District No. 602, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance (Page 17).
5. The auditor's report on compliance for the major federal award programs for Northwest Kansas Educational Service Center, Interlocal District No. 602 expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: **Head Start – 93.607 and Title I - Migrant – 84.011.**
8. The threshold for distinguishing Types A and Type B programs was \$300,000.
9. The Northwest Kansas Educational Service Center, Interlocal District No. 602 did qualify as a low-risk auditee.

B. Findings – Financial Statements Audit

None

C. Findings – Major Federal Award Programs Audit

None

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Head Start

Schedule 1

Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2009

	Actual
Cash Receipts:	
Federal Aid	\$ 1,350,686
Expenditures:	
Salaries	932,718
Payroll Taxes & Employee Benefits	159,373
Contractual Services & Supplies	193,084
Travel	35,511
Food Purchases and Supplies	30,000
Total Expenditures	1,350,686
Cash Receipts over (under) Expenditures	0
Unencumbered Cash, Beginning	0
Unencumbered Cash, Ending	\$ 0

Note:

The amounts on this schedule are included in the General Fund on page 4. This schedule is prepared for federal agency reporting purposes only.

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Page 1

	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Kansas Department Education:			
VI-B (94-142)			
VI-B IDEA - FY 07	84.027	3234-3051	1,280,334
Special Projects-Continuous Improvement - FY 08	84.027	3234-3050	<u>56,951</u>
Total VI-B (94-142)			<u>1,337,285</u>
Early Childhood			
Handicapped Infants/Toddlers - FY 08	84.173	3535-3550	<u>77,907</u>
Vocational Education			
Program Improvement - FY 09	84.048	3539-3590	<u>22,441</u>
Title II - Improving Teacher Quality			
FY 09	84.367	3526-3860	<u>6,000</u>
Title IV - Drug Free Schools			
FY 08	84.186	3795-3100	510
FY 09	84.186	3795-3100	<u>3,148</u>
Total Title IV - Drug Free Schools			<u>3,658</u>
Title III - English Language Acquisition			
FY 08	84.365	3522-3820	15,332
FY 09	84.365	3522-3820	<u>17,046</u>
Total Title III - English Language Acquisition			<u>32,378</u>
Title I - Migrant			
FY 09	84.011	3537-3570	<u>226,217</u>
Character Education Initiative			
FY 09	84.215	3592-3070	<u>6,681</u>
Passed through Kansas Department of Health and Environment:			
Early Childhood (Part C)			
FY 09	84.181	3516-5010	<u>112,942</u>

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Page 2

	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
Passed through University of Kansas:			
Regional ATech			
FY 07	84.224	2545-2690	5,271
FY 08	84.224	2545-2689	5,114
FY 09	84.224	2545-2688	<u>2,999</u>
Total Regional ATech			<u>13,384</u>
 Total U.S. Department of Education			 <u>1,838,893</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES			
Direct Aid:			
Administration for Children, Youth and Families - Head Start			
Continuation - FY 09	93.607	N/A	<u>1,350,686</u>
 Total - U.S. Department of Health and Human Resources			 <u>1,350,686</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Kansas Department of Education:			
Child and Adult Care Food Program	10.558	3531-3510	<u>136,737</u>
Passed through Kansas State University: Passed through SKIL Resource Center, Inc.:			
Agrability - Cooperative Extension Service	10.500	929772554	<u>24,694</u>
 Total U.S. Department of Agriculture			 <u>161,431</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u>3,351,010</u>

Note A - Basis of Presentation:

The Schedule of Expenditures of Federal Awards is prepared on the regulatory basis of accounting of the State of Kansas. Expenditures include disbursements, accounts payable and encumbrances.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Page 3

Note B - Subrecipients:

The Northwest Kansas Educational Service Center, Interlocal District No. 602 provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Title IV -Drug Free Schools FY 09	84.186	\$ <u>1,594</u>
Title III - English Language Acquisition FY 08	84.365	<u>6,012</u>
Title I - Migrant FY 09	84.011	<u>2,362</u>
Total		<u><u>9,968</u></u>